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ABSTRACT

The involvement of speculative activities in real estate transfers in central cities where racial composition is changing has been the center of controversy in a number of cities. This paper is a statistical description of the scope of the operations and some of the effects as measured by demographic data. The site of the study was Baltimore, Maryland during the 1960's. Data from the census, the city Department of Planning and school sources, were used for the demographic descriptions. Information on real estate transfers was drawn from state corporation data, tax information, and deed recordings. One of these 16 census tracts was used as an illustrative case of the scope of the speculator activity and its effects. Speculator activity drove up the price of housing considerably: to $1.5 million dollars mark up over nine years or a 58 percent mark up. Over a 20-year mortgage life, this amounts to a minimum of $7,200 overcharge for these properties as compared to one bought for fair market value. Hypotheses about the condition of the housing and the financial status of the black home buyer as explanations of the mark ups are rejected on the basis of comparative analysis. The effects of selling practices discussed on density, city services, schools, and family life are briefly discussed. (Author)

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The Delivery System of Black Private Housing: Speculation in Baltimore in the 1960's*

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*Paper presented to the American Sociological Association Meetings, Denver, Colorado, August, 1971.

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The migration of Negroes to cities and their spatial distribution have been studied and documented in recent years (Taeuber and Taeuber, 1965; Stinnen and De Jong, 1969; U. S. Census Bureau, 1970). The influx of Negroes into cities and the exodus of whites to suburban areas has resulted in an increase in the proportion of the black population in many central cities.

Baltimore, Maryland, is a prime example of this pattern of increasing percentage in black population. This view is supported by the estimated loss between 1960 and 1968 of 15.5 percent (95,000) of the city's white population of 1960, resulting in a 1968 estimated white population of 515,000. This meant the city's white population dropped from 65 percent to 54 percent of the total in eight years. During the same time, the black population increased 24 percent (104,000) to an estimated 432,500 in 1968, or an increase of approximately 13,000 annually (Baltimore City Department of Planning, 1970, p. 6). In 1950, Baltimore's black population was concentrated in the downtown area. Most of the census tracts with 75 percent or more blacks were adjacent to the downtown area in a west and northwest direction. To the east, census tracts also had a large proportion of blacks, but were generally below the 75 percent level in these tracts. (See Map 1).

Between 1950 and 1960, Baltimore's black population continued to expand outward from the center of the city. Census tracts adjacent to the western edge of the downtown area lost population but remained predominantly black. The location of census tracts containing 75 percent or more blacks expanded to the east and to the west and northwest. (See Map 2). The increasing concentration of blacks in the eastern part of the city leveled off in the 1960's. The tracts to the west and northwest of the central area, however, continued

to become almost entirely black. By 1968, the Baltimore City Department of Planning (1970, p. 7) estimated that most census tracts in the western part of Baltimore were over 75 percent black (Map 3).

These outward movements of the black population were the result of the increase in black population in Baltimore and the displacement of blacks by urban renewal close to the downtown area. As Baltimore's whites moved out, often beyond the city limits to the suburbs, recent in-migrants and the blacks displaced by urban renewal took over the areas adjacent to the inner ring which had been left by the white population.

The 1970 census will probably provide a large number of variations on this theme throughout large cities in the United States. The aim here is not to detail these movements but to clarify the social processes involved by inquiring into some of the concomitants of such change. It is obvious that residential changes of this character and magnitude do not just happen.

The events in Baltimore raise many questions. Certainly the black population increase was not housed in new public or private housing, and the movement outward indicates that many blacks either bought or rented the private houses whites were leaving behind. What were the processes of movement of blacks into previously white neighborhoods? Did blacks pay more or less than whites for housing? Who gave mortgages for black purchases? These questions and others are prompted by traditions in the United States of housing segregation, discrimination by lending institutions, blockbusting tactics, silent racial covenants, and all the possibilities these present when consciously manipulated for profit.

This study is an attempt to answer these questions for the Baltimore area. Analysis of housing transfers in the City of Baltimore between 1960

and 1968 reveals a pattern of speculation in the areas changing from white to black. It is not surprising that many blacks would pay more than whites for comparable housing elsewhere in the city. That is, housing in white areas bought from white sellers by investors could be sold to black buyers at considerable profit. Prices for black buyers could be higher than the fair market value of those houses, and higher than similar houses sold to whites in areas of the city which remained white.

Data and Method

Basic population and housing data for relevant census tracts have been extracted from the 1960 Census and from the report of the Baltimore City Department of Planning (1970). The data on housing transfers include all sales in sixteen census tracts in Baltimore between 1960 and 1968 (including the target tract of this study, 1608) and for all tracts in the city between 1965 and 1968. These data include date, buyer, seller, price, mortgagee, mortgage amount, and ground rent. Therefore, a complete sales history for nine years of the decade is available for the major areas of racial change. The movement of private property in the entire city for most of the latter half of the decade is available for analysis and comparison.

In 1960, census tract 1608 was at the western edge of the movement of blacks, bounded on the south by a major artery along which the movement proceeded. All tracts east of 1608 to the downtown area were over 75 percent black in 1960, although 1608 itself was only one percent black (Baltimore City Department of Planning, 1970, p. 7). By 1968, census tract 1608 was over 95 percent black (Table 1). It was chosen as the area in which to study

housing sales because of this dramatic (although not unusual) change.

Houses in Tract 1608 which were bought by companies between 1960 and 1968, and sold within eighteen months to private individuals, were defined as houses involved in investor transactions. It was hypothesized that these houses would be bought by investors for less than houses with FHA mortgages and sold to private buyers for more than FHA guaranteed houses.

The second aim of this study was to estimate the extent to which the racial factor was responsible for speculative patterns in real estate transactions. This was done in two ways. First, housing costs for whites in a tract similar to tract 1608 were compared to the prices charged by speculators. Second, during the 1960's a presidential Executive Order opened FHA financing for black home buyers. The effect of this order on speculator activity and on tract 1608 was traced in order to see whether speculators were dealing with people financially able to qualify for FHA mortgages.

Findings

Although in the path of the westward movement of Baltimore's black population, tract 1608 was separated from the movement by Gwynns Falls Park in its eastern and northern sections. Nevertheless, between 1960 and 1968, tract 1608 became part of the pattern of black migration in Baltimore. As Table 1 shows, 1608 changed from a virtually white to an almost all black area, despite the physical barrier of the park.

--Table 1 about here--

A large population increase in tract 1608 accompanied the racial change. Between 1960 and 1968, population increased 36 percent (Table 1). The Post

Office Mailing List Estimate for the 1970 Census showed a net decline of forty-seven housing units from 1960. Thus, there was increase in density concomitant with the racial change.

In tract 1608, there was a large traffic in housing by real estate companies controlled by a small number of individuals. As was expected, the average cost of these houses to the investors was well below measures of fair market value. The homes were resold well above the same fair market values.

Table 2 presents the data on houses bought and sold by investors. The 391 transactions in tract 1608 between 1960 and 1968 include houses bought and sold by companies within eighteen months. Investors purchased many more properties which were either rented or were resold more than eighteen months after purchase. Therefore, it should be noted that the data presented do not include the present total value of holdings in real estate and do not include the rents collected by investors in black neighborhoods in Baltimore.

--Table 2 about here--

In the period under discussion, over $1,500,000 above cost was charged to the 391 individuals buying into the area. This represented an average markup of 53 percent on houses held by investors for less than an average of six months. These markups do not include rents collected under lease and option contracts before sale, service fees, interest on second mortgages, increased or newly-created ground rents or the benefit of the short term use of weekly payments collected by the investor companies. Each of these mechanisms is a further source of income for speculators.

In addition to gross markups, in 96 cases companies created or increased ground rents. The cases reported in Table 2 yield an annual rent of $8,077.

Since ground rents equal six percent of the value of the land, these rents represent an addition of $314,616.66 to the value of the properties purchased. This raises the value to the investor of each of the 391 houses to an average of $11,751.35, or an additional five percent capital increase on the average investment in each house purchased.

During the years for which FHA data are available (1963-1968), the average price of a home in tract 1608 purchased with an FHA guaranteed mortgage was $9,353.64. Using this price as an indicator of the fair market value, it is revealed that about half of the speculators' markup came from buying low from sellers, who were white families probably fleeing from 1608. Fear and panic cost about $2,000 every time a family sold a house in order to escape (and thereby contribute to) the racial change in the neighborhood in which they lived. The other half of the markup came from overcharging the black buyers more than an average of $2,000 above a fair market value of the row houses predominant in this tract.

The data presented indicate that speculators made large profits from white fears of residential integration and black aspirations for better housing. In order to show whether these profits were made by speculators exploiting a black market while whites were not exploited in this way, a white tract, 2603, was also studied.

Tract 2603 is a predominantly residential area, with housing not quite as old as the Edmondson Village area in which 1608 is located.. Between 1960 and 1968, 2603 remained a white area, although population decreased by 11 percent.

--Table 3 about here--

Table 3 presents various comparative measures of housing in the two census tracts. Housing in 1608 is somewhat older than 2603, although the 1960 value

of both is approximately the same. The average selling price of houses with FHA mortgages in the 1960's provides an index of the fair market value of very similar housing during the decade. The assessed values reflect the newer housing in 2603 and would lead one to expect housing there to cost a bit more than in 1608. The history of investor housing sales in the two tracts in the 1960's does not conform to expectations.

--Table 4 about here--

Table 4 presents the summary of house sales in 2603 in which a corporation took title and resold a house within eighteen months between 1965 and 1968. A number of aspects contrast vividly with 1608. The real estate companies dealing in tract 1608 are conspicuous by their absence in 2603. Secondly, most of the activity of corporations seems not to be speculation but involved recouping on bad loans. Sale prices by the companies involved was approximately the fair market value, as indicated by the average cost of FHA insured houses in 2603 bought in the 1965-1968 period.

In short, 2603 was not a changing neighborhood and did not present the possibility of large profits to be made by buying low from fleeing whites and selling high to blacks whose housing opportunities are severely circumscribed. On the basis of these data, it can be concluded that the prices, the markups and the profits in census tract 1608 are not due to qualitative difference in the housing. A more probable explanation is based on the vulnerability of the white population in tract 1608 and the limited home buying prospects of Baltimore's black population.

An age-sex pyramid for tracts 1608 and 2603 for 1960 when both areas were predominantly white, suggests that in tract 1608 there was a larger proportion of families with grown children than in 2603. The measures in Table 5 also

indicate that in tract 1608 there was a larger percentage of people, who, because of stage in the family cycle and income, could presumably move with less family disruption. Thus, the combination of being in the line of black migration and the greater possibility for moving (vulnerability) of the 1608 population, the choice of 1608 was more logical for speculative activities. The higher resale price to blacks can be explained more in terms of black housing aspirations and a restricted market than the inherent value of the houses themselves.

--Chart 1 and Table 5 about here--

The speculative patterns, therefore, seem to be traced to the question of race. The fear of blacks moving into a white neighborhood apparently led to panic selling by people whose stage in the life cycle situation made a move feasible, even at a loss. The tight housing market for blacks explains the additional cost to them above the various measures of fair market value presented.

Another explanation for price differences is financial status of black buyers. Perhaps the greater risk involved warrants the higher prices. This explanation is called into question when FHA activity in tract 1608 during the decade is analyzed.

Data on the number of FHA guaranteed mortgages in 1608 between 1960 and 1962 are not available. However, banks which did give FHA guaranteed loans in the area in 1963 and following years were much less active in tract 1608 before that time. It was in these early years of the decade (before 1963) that much of the speculator buying took place.

In 1962, the Kennedy administration issued Executive Order 11062 prohibiting discrimination in federally assisted housing. The effect of this order

was to open up FHA mortgages to a larger number of black buyers in the United States (Abrams, p. 63). In tract 1608, sixty FHA guaranteed mortgages were given in 1963, and about seventy in 1964. The previous activities of the banks who gave these mortgages indicated that these figures represented a sizable increase in FHA mortgages in tract 1608.

It so happens that both the buying and selling of the major speculators hit a peak in 1962 and declined after that. It would seem reasonable to state that many potential recipients of FHA mortgages were being served by the speculators. The lessening of FHA discrimination seems to have cut into the speculators' potential market.

An additional indication of the financial ability of blacks buying from speculators is foreclosure rates. The major speculator in 1608 handled 144 of the 391 transactions between 1960 and 1968. Of the 144 transactions, there were seven foreclosures, a rate of 4.9 percent. Among the 260 FHA financed mortgages in 1608 between 1963 and 1968, there were six foreclosures or a rate of 2.3 percent.

Thus, the amount of markup does not seem consonant with any possible risk due to black buyers' financial position. The increased FHA mortgages in tract 1608 after the Kennedy Executive Order of 1962 and foreclosure rates simply do not support such a position.

Although the data available are rough and do not prove that race was the over-riding factor, they nevertheless raise serious objections to any explanation which would deny that race is a major factor leading to the possibility of excessive profit. There are major differences in the delivery systems of private housing for blacks and whites in Baltimore which result in blacks paying more for similar, and even older, housing. It must be added that the

speculators' activity also includes a great deal of subdividing and renting of houses leading to increased density, greater demands of city services, and, in general, those things which tend to rapidly depreciate the value of a piece of property and desirability of a neighborhood.

Conclusions and Discussion

Census tract 1608 is an example of social processes involved as cities become increasingly black. Negro in-migration and white out-migration results in cities being increasingly populated by black Americans. The neighborhood change which results is facilitated by the activities of speculators. Apparently the housing of blacks in cities is not being taken care of adequately by existing institutions. The real estate industry and government public housing programs are not geared to the delivery of private housing for blacks in the quantities necessary. It is the speculators who fill this vacuum. The social and economic costs are high and the deterioration of neighborhoods resulting from speculator practices is easy to imagine.

An important question which remains to be answered is the location of the next areas to be cultivated by speculation. Data on tract 1608 suggest that housing in lower middle income areas of central cities has gone, and perhaps still is going, through a two cycle process. Housing is inhabited by growing white families until a large percentage of the families contain grown children. At this point, such housing, particularly that contiguous to black areas, will be left by whites and growing black families will replace them. The white working class families with grown children are apparently more vulnerable to fear of neighborhood change (Edwards, 1970). They are more likely to be in a better position to absorb the losses of such a move than a family with young children. Younger families are probably more vigilant about the activities of speculators and more willing to fight racial change.

The future activity is hard to predict. Patterns of the past do not neccessarily repeat themselves and complicating factors like community organization, the money market, government programs and judicial action, all influence the outcome of events in the black housing market. However, it is reasonable to expect that the pattern in tract 1608 of Baltimore was (and will be) repeated elsewhere. Lower-middle income areas near black concentrations will likely be prime ground for speculators, especially if the area has an older population and a large percentage of families with grown children. Further research on different cities and future activities will be needed to verify whether Baltimore is an exception or an example of a general pattern.

Two things seem clear. Reforms are definitely needed to insure equal access to housing at fair market prices for both black and white Americans in central cities. The delivery system for black private housing is demonstrably inadequate. Second, vigilance is needed in order to prevent the continuation of the speculation and the accompanying exploitation in black housing. Increasing density, subdividing, the outpouring of capital from black areas, and all the concomitants of this form of speculation may well be creating the slums of tomorrow.

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TABLE 1

Racial Characteristics of Tracts 1608 and 2603

Baltimore City, 1960 and 1968

	1608				2603			
	1960		1968*		1960		1968*	
	N	%	N	%	N	%	N	%
Total Population	8,817	100.0	12,000	100.0	17,511	100.0	15,600	100.0
White	8,708	98.7	500	4.1	17,490	99.8	15,500	99.3
Negro	96	1.0	11,500	95.8	2	.0	100	.6
Other	13	.1	---	---	19	.1	----	---

*Population estimate

Sources: U. S. Bureau of the Census, 1960. PHC (1) - 13.
Baltimore City Department of Planning, 1968 Population Estimate: White and Non-White by Census Tract, February, 1970.

TABLE 2

Housing Transfers Involving Corporations

Tract 1608, 1960-1968

Total Transactions	391	
Total Cost to Companies	$2,901,179.00	
Average Cost to Companies	$ 7,419.90	
Total Sale Price by Companies*	$4,464,761.00	
Average Sale Price by Companies*	$ 11,418.83	
Average Markup	$ 3,979.11	(53.6%)
Ground Rent Creations	81	
Capital Value of Created Ground Rents	$ 130,016.66	
Ground Rent Increases	15	
Capital Value of Ground Rent Increases	$ 4,600.00	
Average Capital Value of Houses Sold by Companies**	$ 11,751.00	
Average Total Capital Increase	$ 4,331.45	(58.4%)
Average Length Held	5.8 Months	
Average Sale Price of FHA Insured Houses	$ 9,353.64	

*Excludes increased or newly created ground rents.

**Total average sale price plus average value of ground rents spread over total N (391).

Source: Lusk Reports, 1960-1968.

TABLE 3

Year Built, Condition and Value Measures

Census Tracts 1608 and 2603, Baltimore City

	1608		2603	
	N	%	N	%
Total Housing Units	2,883	100.0	5,443	100.0
Year Built				
1950 through 1960	546	18.9	2,493	45.8
1940 through 1949	907	31.4	1,573	28.8
1939 or earlier	1,430	49.6	1,377	25.2
Condition				
Sound	2,708	93.9	5,380	98.8
Deteriorating	174	6.0	60	1.1
Delapidated	1	--	3	--
Census 1960				
Median Value	$8,700		$8,900	
Average Sale Price of FHA Insured Houses	$9,354 (1963-68)		$9,424 (1965-68)	
Average Assessed Value 1969, 5% Sample	$6,388		$6,765	
Adjusted Value Based on Assessed Value = 2/3	$9,582		$10,147	

Sources: U. S. Bureau of the Census, 1960. PHC (1) - 13.
Lusk Reports, 1960-1968
Baltimore City, 1969, Real Estate Tax Assessments.

TABLE 4

Housing Transfers Involving Corporations

Tract 2603, 1965-1968

Total Transactions	22
Total Cost to Companies	$162,200
Average Cost to Companies	$ 7,373
Total Sale Price by Companies	$204,250
Average Sale Price by Companies	$ 9,284
Average Markup	$ 1,911 (25.9%)
Average Length Held	5 months
Average Sale Price of FHA Insured Houses	$ 9,424

Source: Lusk Reports, 1960-1968.

TABLE 5

Family Income and Marital Characteristics, 1960

Tracts 1608 and 2603

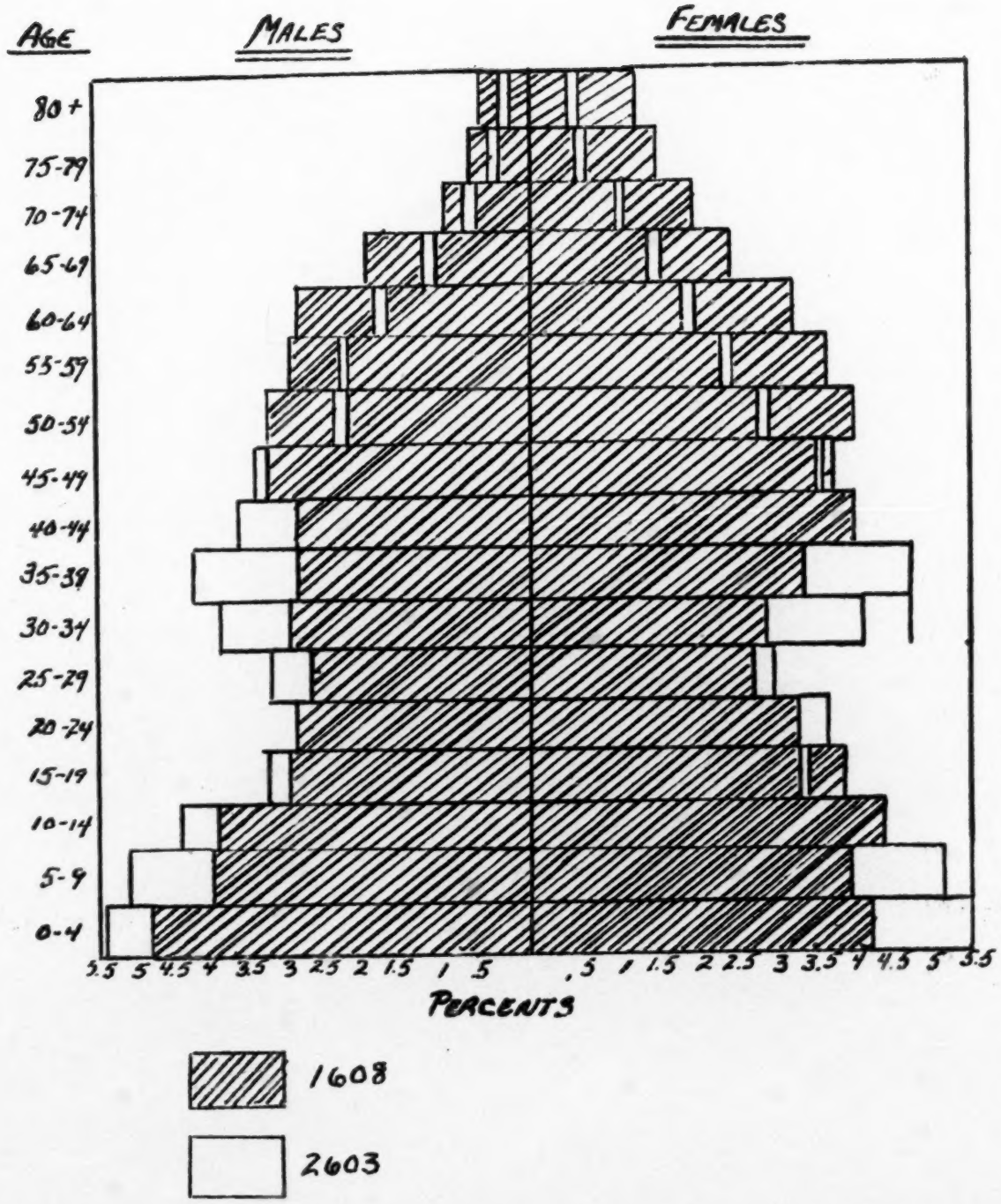
	1608		2603	
	N	%	N	%
Married Couples	2097	100.0	4457	100.0
With children under 6	530	25.2	1463	32.8
With children under 18	1045	49.8	2610	58.5
With husband under 45	949	45.2	2617	58.7
Median Income				
Families	$6995		$6318	
Families and unrelated individuals	$6230		$5983	

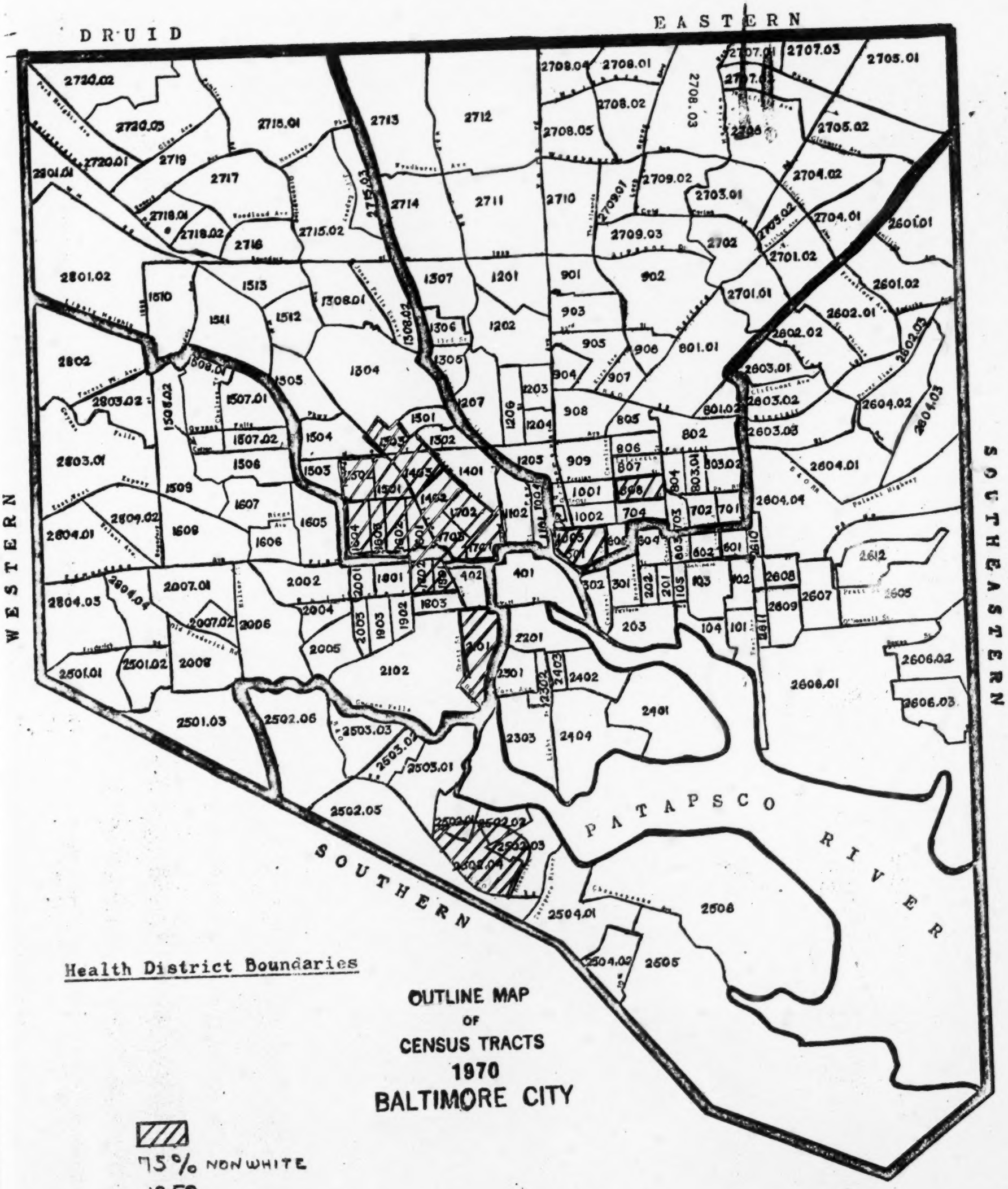
Marital Status (14 and over)	Males		Females		Males		Females	
	N	%	N	%	N	%	N	%
Single	661	21.8	768	20.7	1144	19.5	1031	15.5
Married	2176	72.0	2255	61.0	4510	76.9	4679	70.4
Widowed	124	4.1	557	15.0	138	2.3	750	11.3
Divorced and Separated	99	2.9	202	5.4	121	2.0	344	4.1

Source: U. S. Bureau of the Census, 1960. PHC (1) - 13.

CHART I

AGE AND SEX, TRACTS 1608 AND 2603 - 1960





Health District Boundaries

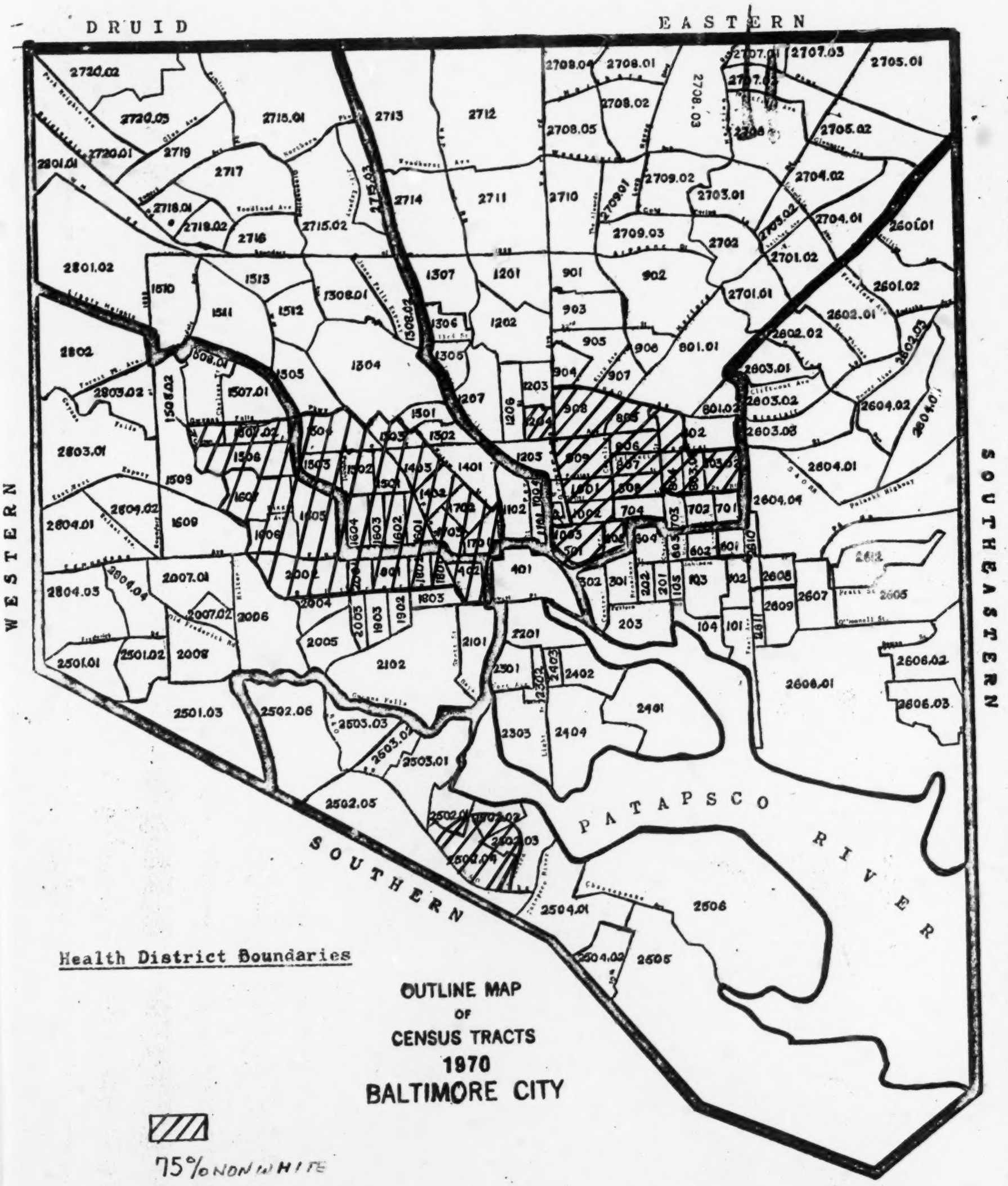
OUTLINE MAP
OF
CENSUS TRACTS
1970
BALTIMORE CITY

▨ 75% NONWHITE
1950

B10-7/8-69

MAP 1

Baltimore City Health Department
Bureau of Biostatistics



Health District Boundaries

OUTLINE MAP
OF
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1970
BALTIMORE CITY

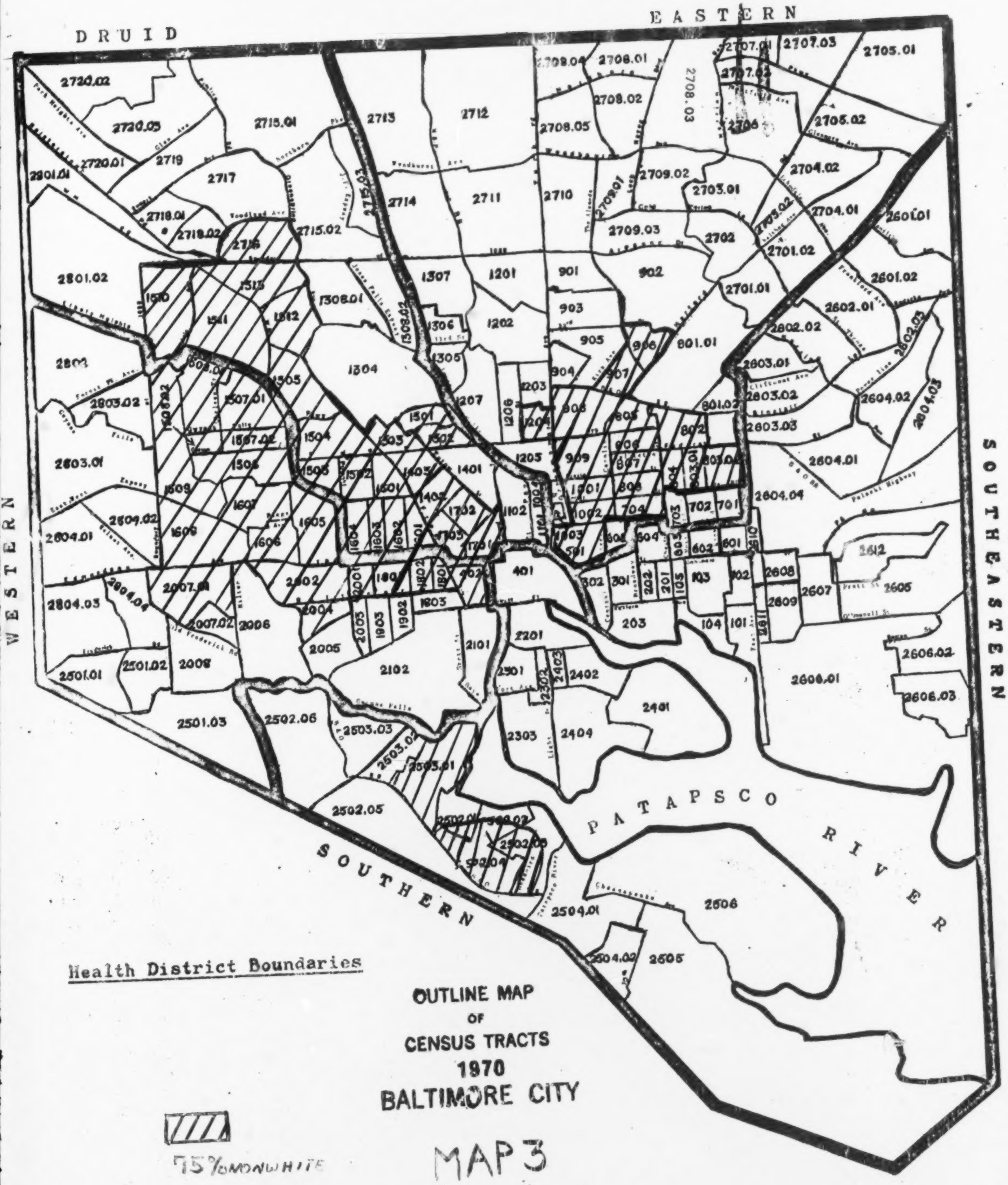
▨ 75% NON WHITE

1960

B10-7/8-69

MAP 2

Baltimore City Health Department
Bureau of Biostatistics


DRUID
EASTERN
WESTERN
SOUTHEASTERN
SOUTHERN
PATAPSCO
RIVER
Health District Boundaries
OUTLINE MAP
OF
CENSUS TRACTS
1970
BALTIMORE CITY
75% NONWHITE
1968 EST.
MAP 3
Baltimore City Health Department
Bureau of Biostatistics
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